

Contractor Selection/Bidding Requirements/Compensation

The construction process begins with bidding or negotiating contracts with those who will build the proposed site improvements. Minnesota Housing Finance Agency (Minnesota Housing) permits either direct selection (negotiated or comparative selection) or competitive bidding for awarding construction contracts. Each selection method has its advantages and disadvantages. Regardless of what selection method is used, selection of a Contractor (Single Prime General Contractor) who has the capabilities and qualifications to meet the project's requirements is the Owner's (Borrower/Developer) responsibility.

Minnesota Housing realizes the importance of Contractors receiving adequate compensation for constructing services. In addition, Minnesota Housing realizes not every project is the same and there are often projects types that are inherently complicated and characterized by uncertainties. Therefore, Contractor compensation may exceed maximum percentage allowed (see below), if approved by Minnesota Housing.

Purpose: To provide framework for Contractor selection.

Requirements:

1. If Contractor selection is direct selection:
 - It shall be done early in the development process to establish the Contractor as part of the design team and the Contractor shall be expected to provide continuous value engineering in design.
 - All work shall be competitively bid to at least two (2) qualified subcontractors for each division of work, including work to be performed by General Contractor's own workforce.
 - Contractor compensation shall comply with the following:
 - a. *Contractor Profit:* The maximum Contractor profit is **6-percent** of net construction costs. (Note: Net construction costs are construction costs not including Contractor profit, general requirements, and Contractor overhead);
 - b. *General Requirements:* Items of costs to be considered in this allowance include: onsite supervision, signs, field office expenses, temporary sheds and toilets, temporary utilities, equipment rental, cleanup costs, rubbish removal, watchmen wages, all of the builder's insurance (except builder's risk), temporary walkways, fences, roads and other similar expenses. The maximum general requirements allowed is **6-percent** of the net construction cost;
 - c. *Contractor Overhead:* Minnesota Housing allows a Contractor an overhead allowance based on a percentage of the net

- construction cost. The permitted maximum allowance is **2-percent**;
- d. It is possible to exceed expenses in one area if other areas are not at their maximum. Minnesota Housing will allow the collective balance of Contractor profit, general requirements and Contractor overhead to equal **14-percent**; and
 - e. *Developer as Contractor*: When the Developer and the Contractor are the same entity, in addition to the fee limits stated above, the combined sum of Developer fee, Contractor profit, Contractor overhead and General Requirements may not exceed **20-percent** of the total development costs, less the Developer fee.
2. If Contractor selection is competitive bidding:
 - Bidding may be open to all or restricted to a few (3-5 is recommended) Contractors.
 - Minnesota Housing prefers soliciting competitive bids from a selected list of Contractors who are judged to be qualified for a specific job.
 3. Regardless of what Contractor selection method is used, Contractor compensation shall be in the form of a fixed price (stipulated sum). Refer to Owner-Contractor Agreement section for information regarding acceptable forms of agreements.